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WORKING DOCUMENT

Discussion Draft
Concept Note for CGIAR Risk Governance Framework
"The CGIAR Global Response System"

Submitted by:
Fund Office

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"The CGIAR Global Response System"

A. SUMMARY AND PURPOSE

This concept note proposes a monitoring mechanism, the "**CGIAR Global Response System,**" to provide the Fund Council (FC) and other CGIAR governance bodies with concise, select information to help CGIAR handle risks and opportunities. The proposal responds to a recent review of CGIAR's risk management capabilities, which found inefficiencies in the way CGIAR risks are handled, particularly in respect of centralized risk management and monitoring activities.[1] The Fund Council, in particular, does not undertake any systematic risk governance activities. The proposed CGIAR Response System will track and aggregate data to facilitate anticipatory action throughout CGIAR. Even when an anticipatory action is not possible, conducting thorough risk analysis will help CGIAR respond faster to emerging events. This proposal describes a path to enhance risk governance by the Fund Council.

B. BACKGROUND & PROBLEM STATEMENT

At FC10 in Nairobi, the Fund Council asked the Fund Office to explore options to enhance the risk governance and management capabilities of the FC and CGIAR.

1. This request came in the context of the FC discussion of the PriceWaterhouseCoopers (PwC) Governance Report, which pointed out that for CGIAR as a whole **"inefficiencies in the way systemic[2] risks are dealt with (e.g., reputation, fraud and funding certainty) in particular in respect of the design and implementation of centralized management and monitoring activities for the risks identified."**
2. The discussion of the PwC comments on risk was book-ended by two events that demonstrated the scope for improvements in CGIAR's risk anticipation and mitigation approaches. First, the PwC review was commissioned in the wake of losses due to misappropriation of funds at a Center. Then the release of the PwC's final report coincided with the FC's discussion about the displacement of ICARDA due to political disturbances in Syria.
3. Both these events are the types that a well-designed Global Response System should: (i) provide the FC with early warning signals of their occurrence and thus aid in formulating anticipatory action; and (ii) help the FC to react quickly to suddenly emerging events, thus coping with their consequences and after-effects.
4. By seeking to enhance its risk governance performance, the FC is seeking to make further value-added contributions to CGIAR.

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[1] CGIAR Governance Review Phase 2 by Price Waterhouse Coopers dated September 18, 2013.

[2] Systemic refers to CGIAR wide risks not "systemic risks" as used by economists to mean risks in the national economic and financial systems.

Overview of Current Risk Governance and Risk Management in the CGIAR[3]

CGIAR is characterized by two reinforcing pillars: (i) the CGIAR Funders (including the Fund Council and Fund Office) coordinated through the FC; and (ii) the CGIAR Doers (including the Consortium and the Centers) coordinated through the Consortium. The CGIAR risk governance and management activities (See Fig 1: Risk Governance vs. Risk Management) are dispersed throughout these two pillars of CGIAR, a global scientific research-for-development partnership.

Figure 1: Risk Governance vs. Risk Management

1. **Centers**: The PwC review was focused on overall high-level governance issues rather than a detailed examination of CGIAR risk management capabilities. However, the consultants provided some feedback on their limited enquiry into the risk management activities of CGIAR. They reported that the Centers have invested significant time and effort in building their risk management frameworks and that there is a standardized approach to risk management across the Centers. PwC reports that based on their interviews and in line with best practices, each Center's managers prepare a risk registry which the Center board reviews and approves. However, each Center manages its risks separately with its own risk definition and mitigation, which differs from those of other Centers.

2. **Consortium Board and Office:** PwC's review of the Consortium's operations was also limited in scope, but they noted that the Consortium's risk management approach was nearly complete at the time of the PwC report (2013). In PwC's assessment, the approach seemed comprehensive, taking into account financial, market, strategic and operational risks. The Consortium Board has a committee in charge of risk management. However, PwC recommended a more structured approach to risk management and governance across the Centers and Consortium. As a part of the structured

[3] Except for the remarks on the Fund Council, much of the content of this section on Centers and the Consortium is drawn from the PwC report based on a limited review of the risk practices of CGIAR.

approach, PwC suggested that the Consortium review the Centers' risk registers to identify areas where better risk management and efficient risk mitigating activities can be obtained by centralizing some risk management procedures.

In the comments on the PwC report, the Consortium Board and Office asserted they had adequate risk resources and practices and did not need the additional expenditure of a creating a new position (as suggested by PwC) to establish a Governance, Ethics, Risk and Compliance function.

3. **Fund Office, ISPC and IEA:** These three smaller offices do not have any individual formal risk registers or comprehensive risk assessment activities. In defining their Four-Year Rolling Work plan, the IEA developed a logframe for the evaluation function, including analysis of risk factors. Generally within these smaller Units, risk management is handled as a part of the day to day managerial tasks.

   It must be noted that, all three units are hosted within larger institutions that are likely to have their own risk frameworks. Regardless, these institutional risk processes cannot necessarily be relied upon by CGIAR as they focus on the host institutions' specific concerns rather than risks to CGIAR. Further, it is unlikely that CGIAR will have access to their risk analysis.

4. **Fund Council:** As described in the Governance Framework, the Fund Council is the CGIAR Fund's decision-making body, representing all Fund Donors. Currently, the FC does not have a risk governance framework or a formal mechanism to pro-actively monitor risks and opportunities arising within CGIAR. Notwithstanding this omission, the donor group has reacted to unfavorable events by providing additional or restructured funding or requiring new administrative action (i.e., requiring forensic audits).

   Within the CGIAR reform documents (i.e., the Joint Agreement and Governance Framework) there is no specific mention of risk management responsibilities for the Fund Council. However, the founding documents ascribe the Fund Council authority and responsibilities of monitoring, governance and evaluation within CGIAR. In particular, the Governance Framework gives the Fund Council responsibility to ascertain that, prior to fund transfers, any recipients of funds from the CGIAR Fund have in place effective control systems and processes to confirm that such funds are used for their intended purposes. Furthermore, the Fund Council can develop terms and guidance as appropriate for Fund Council business.

   In discharging its responsibilities, the Governance Framework calls for the Fund Council to provide an overview of CGIAR and monitor performance in the following key areas, as relevant: (i) strategic impact; (ii) quality and relevance of programmatic performance; (iii) managerial and governance performance; and (iv) financial and resource mobilization.

C. PROPOSED SOLUTION: A RISK GOVERNANCE FRAMEWORK

Basic Principles of a New Risk Governance Framework

The proposed risk governance framework, the CGIAR Global Response System: (i) will track and aggregate data to facilitate anticipatory action throughout CGIAR; and (ii) will help CGIAR respond more rapidly and appropriately when unexpected emerging events call for ad hoc mitigation. The design of the risk governance framework will be built around several key principles including:

- Enabling the Fund Council to monitor and focus on major risk[4] and opportunity categories;
- Coordinating the treatment of common risks across the system;
- Using active decentralized handling of day-to-day operating risks;
- Facilitating regular reporting across CGIAR to adjust and reassess major risk factors;
- Encouraging open communication about emerging events between operational units and the central governance bodies; and
- Enabling the governance bodies to handle potential risk and opportunity interventions on an as-needed basis when unexpected events emerge.

Overview of the Basic Elements of the Proposed CGIAR Global Response System

In applying these principles to CGIAR, the following are expected design features:

1. For the Fund Council's active monitoring, the Global Response System, as a central risk governance system, will track mainly the paramount strategic risks and opportunities [same]. The items to be tracked by the FC will be arrived at by discussion and analysis and may change over time. However, for example, an initial broad group to be defined and tracked could include:
    a. Delivery opportunities;
    b. Political and reputational risks;
    c. Risks of material fraud, legal risk, financial failures; and
    d. Funding opportunities.

2. Where practical, CGIAR will use a coordinated system to assess and analyze the system-wide risk profile on its portfolio of major activities and to treat the common risks (Figure 2 shows a typical risk management system including assessment and treatment). The Centers and Consortium will focus on a broad portfolio of risks and the FC will focus on a selected set of strategic risks appropriate to the dual pillar partnership structure.

3. While coordinated, the risk governance process will be sufficiently flexible to include variations in perceptions of risk across the CGIAR stakeholder groups. That is, for example, the Fund Council's (and donor group's) assessments of risk may differ from the more operational perspectives taken at other levels within CGIAR. Furthermore, the different stakeholders may have different views of the appropriate CGIAR risk appetites and risks profiles of CGIAR Research Programs, Centers and entities.

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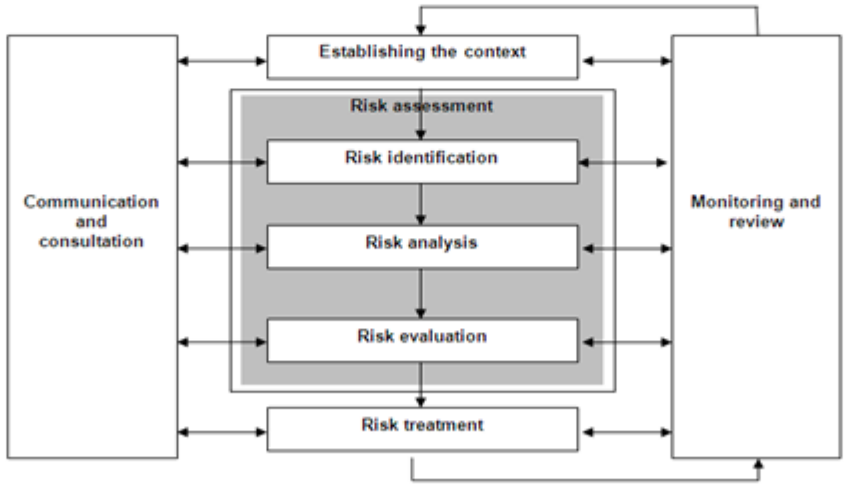
[4] Risk events can have both an upside (opportunity) and a downside (threats or danger) for organizations and individuals. A business makes surplus by exploiting the upside of its risk-taking and mitigating the downsides. For convenience, in this discussion paper the downside effects will be called "risks" (as many persons understand "risks" in the same sense as threats or danger) and the upside will be termed "opportunities".

Figure 2: Generic Risk Management Process



4. CGIAR will implement a robust set of practices to support local risk management (Figure 3: Generic Risk Categories) and appropriate risk audit functions. The limited reviews documented in the PwC reports indicate that CGIAR Centers and Consortium, which are CGIAR's main foci of operations, are already well positioned in this area. (For the ISPC, IEA and FO, the risk practices must be "right-sized" for their operational complexity, staff numbers and the rules of their respective host institutions.)

5. Data on the risk universe of CGIAR will be collected, aggregated and managed at various levels. Many Center level risks will be managed at Center level, while several major risks could be monitored and aggregated at the Consortium Office level[5] with oversight by the Consortium Board. In addition, several elements of CGIAR-wide risk will be tracked, reported periodically and acted upon at the Fund Council.

6. The Consortium Office, the fifteen Centers (including the 264 offices in 90 countries with about 3000 staff outside the 15 main center locations) and the CGIAR Research Programs will use their existing risk management frameworks, strengthened where necessary. In addition, several new types of data points will be collected throughout the CGIAR system for aggregation into the information tracked by the Fund Council and other governance bodies. Thus the new Global Response System will rely on cooperation throughout the CGIAR system.

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[5] The details of the design will depend on what makes sense, is cost effective and what can be agreed across the system among the varied stakeholders.

Figure 3: Generic Risk Categories

Risk Categories	Quantifiability	Characteristic
Hazards • casualty risk • natural disasters • terrorist events	*data on risk events*	Actuarial predictability
Financial risks • interest rate risk • currency risk • market risk	*rich price data*	
Operational risks • operational disruptions • technology breakdowns • errors and fraud	*selective process data*	
Strategic risks • economic risks • competitor risks • political risks • social trends • new technologies • innovations	*few concrete data*	High uncertainty & unpredictability

7. The Consortium's risk function will continue to execute its responsibilities as is acceptable to the Consortium Board, consistent with the Consortium Board's fiduciary responsibilities within the dual pillar partnership structure.

8. The Fund Council's coordinated risk function (can be internal or outsourced subject to confidentiality considerations) will draw on external and on internal CGIAR-wide data and feedback. It will proactively assess emergent risk and opportunities in advance, providing information to the FC for monitoring and responsive action.

D. PROPOSED PROJECT ACTIVITIES AND INDICATIVE BUDGET

Determining the specific project activities and timeline will depend on additional data collection, particularly about the current practices and processes for risk management and the vision of the governance bodies for adding value in handling risks and opportunities. However, on a broad scale the expected activities are as follows:

1. Review the status of the current CGIAR-wide risk management and governance capabilities. This includes assessing the existing risk management capabilities (i.e., personnel, reports, information systems and communications).

2. Review the evaluation reports of the internal and external auditors (where available) on the risk function in the Centers.

3. Benchmark CGIAR risk governance and management capabilities against comparable multi-stakeholder organizations and highly decentralized private sector entities with international

operations (As an illustrative example, Appendix 1 provides a summary of how LEGO System[6] manages their strategic risks).

4. Determine decision-making needs and areas of particular interest of the Fund Council and other governance bodies in the two pillar structure. (e.g., considering the views on system-wide objectives, what events can jeopardize the ability to succeed on any desired objective, and thus what needs to be monitored).

5. Assess if the ISPC, IEA and FO need any formal systems or whether their current informal approaches are adequate. (The assessment will need to be cognizant of the relevant host environments and institutional rules).

6. Design a simple but robust risk and opportunity framework focusing on risk governance capabilities of the FC covering:
    a. Initial interventions (risk scan and system wide conversations at various levels using social media and in person) to facilitate risk identification and ratings;
    b. Deciding on how to handle ongoing risk data collection and monitoring; and
    c. Deciding on limited expenditures (i.e., asset purchase, hiring, training) to implement and maintain.

7. Road test and implement Global Response System.

8. Maintain, audit, update and calibrate (decide on the frequency of audits, updates and calibration, depending on performance and learning from usage).

Indicative Budget and Implementation Timeline

The implementation will be subject to competitive bidding and identification of funding from the Window 1 or from donors interested in providing special initiative funding for this purpose. Factors driving the costs will depend on: (i) the specific activities undertaken; (ii) the cost basis on the consulting firm employed; (iii) the mix of internal and external resources deployed in implementation, maintenance and updating. At this concept note stage, it may be more useful to gain consensus on the idea rather than develop initial estimates of costs, man-hours, timelines and deliverables. However rough estimates suggest the total cost to design and implement should be within the range of the costs on the PwC exercise.

E. CONCLUSION

The implementation of the CGIAR Global Response System will be designed to enhance the risk governance and management capabilities of CGIAR. In particular, it is intended to increase the effectiveness of the Fund Council as it discharges its responsibilities to provide an overview of CGIAR and monitors performance in the following key areas:

(i) Strategic impact ;
(ii) Quality and relevance of programmatic performance ;

[6] LEGO was selected based on convenient access to the data rather exact comparability. However, LEGO's techniques serve to illustrate the main elements of the process.

(iii) Managerial and governance performance ; and
(iv) Financial and resource mobilization.

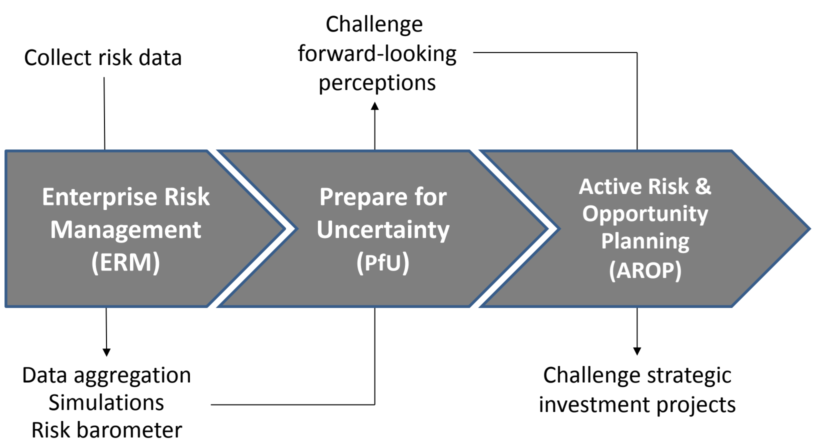
The proposed CGIAR Global Response System will rely on data collected and aggregated within the CGIAR system-wide risk governance and management framework to facilitate anticipatory, quick and appropriate reactive action throughout CGIAR.

ACTION REQUESTED: The FCGC and FC is requested to give comments on whether to go forward with a full risk governance proposal and provide views of funding levels and sources.

Appendix 1: Managing Strategic Risk at LEGO System A/S

Purpose: For FC members, we present a short example from a world-class firm with a comprehensive risk governance and management framework. Although this is a private sector firm, it serves as a good example that high-level risk governance and management principles are the same regardless of the type of enterprise. The example is for illustration purposes only.

Background: The emphasis on strategic risk management was initiated at the LEGO Group in late 2006 as senior management wanted more focus on strategic risk issues as an overlooked element of the corporate risk portfolio and the strategic risk management process. It has since then evolved to comprise the "Enterprise Risk Management" (ERM), "Preparing for Uncertainty" (PfU), and "Active Risk and Opportunity Planning" (AROP).[7] These processes are adopted to challenge managerial assumptions, test the robustness of strategic decisions, ensure that promising business opportunities are identified and executed prudently, and define an appropriate corporate risk profile for future growth and prosperity (see figure below).



Enterprise Risk Management: The enterprise risk management process collects data from business units and helps the business executives think through their risk exposures. The risk information is aggregated into corporate exposures reported to senior management. When preparing for uncertainty, the assumptions behind the corporate strategies formed by top management are challenged in open scenario discussions to test whether embedded perceptions stand up to further scrutiny. The same principles are deployed throughout the organization by adopting active risk and opportunity planning, on all major investment projects, to challenge risk perceptions and ensure that obvious risks are not neglected.

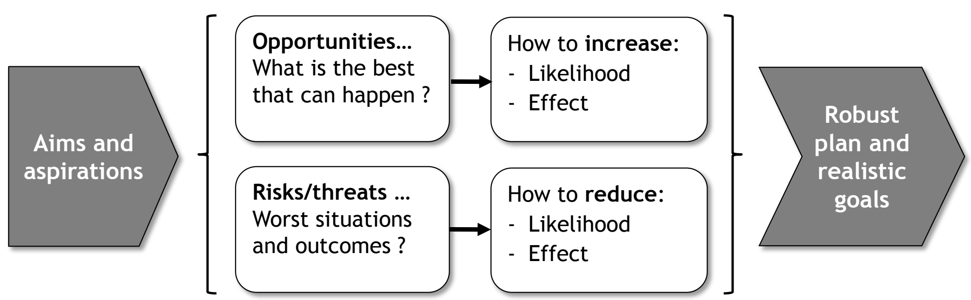
The ERM framework identifies potential risk factors collected from all business units and incorporates them in a central risk register. The risks are prioritized based on an impact-likelihood metric and aggregated into a *corporate risk profile* that can be assessed in simulation based analysis. The risk

7 Frigo M. L. and Læssøe H. (2012). Strategic risk management at the LEGO Group, *Strategic Finance*, 93(8).

portfolio is presented and discussed regularly with the top management team and the board of directors. Detailed mitigation plans are developed for all prioritized risks and ongoing *risk handling* is assigned to designated *risk owners* in the relevant operational entities. The associated exposures are reported on a regular basis to monitor completion of assigned risk responses. The corporate risk register is updated accordingly and serves as a source for historical trend analysis and forward looking exposure simulations.

Prepare for uncertainty: This is a forward looking exercise where scenario discussions among the executive decision makers challenge their existing perceptions of the global competitive situation and test the robustness of the corporate strategy and key projects derived from it. A look at major trends in the world helps identify important environmental uncertainties and define extreme, but not unlikely, future *business scenarios*. The major issues associated with each scenario are identified and fed into discussions about the corporate responses required to deal with them. The process alerts decision makers to environmental uncertainties and urges preparedness to face the unexpected.

The Active Risk and Opportunity Planning (AROP) process: This follows the typical risk considerations of identification, assessment, intervention and monitoring applied to deal with *downside* risks as well as *upside* opportunities (see figure below). [8]



These risk management principles are applied to all major investment projects as a way to anchor risk awareness across important corporate actions. The projects reflect resource committing decisions that change or update corporate activities and thereby execute intended strategies as well as emerging initiatives. The AROP approach is a way to ensure that both downside loss effects and upside opportunities for gains are considered in all resource-committing decisions of a certain size made in different parts of the organization.

8 The active risk and opportunity planning (AROP) approach is reprinted with the kind permission of LEGO System A/S.